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January 31, 2000

EX PARTE OR LATE FILED

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
445 12th Street, S.W. TWB-204
Washington, D.C. 20554

Re: Notice of Ex Parte Filing
CC Docket Nos. 96-262, 94-1, 96-45, 99-249

Dear Ms. Salas:

On February 1, the Progressive Policy Institute mailed the attached letter and study to Chairman Kennard and Commissioners Ness, Furchgott-Roth, Powell and Tristani, in connection with the above dockets.

Two copies of this Notice are being submitted in accordance with Section 1.1206 of the Commission's rules.

Sincerely,

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Director, Technology and New Economy Project

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Policy Briefing
January 2000

Social Policy in a Competitive Marketplace

The Need for Telephone Universal Service Reform

Robert D. Atkinson

The 1996 Telecommunications Act took significant steps toward opening telecommunications markets to competitive forces. But Congress also recognized that competition would require reform of the traditional system of cross-subsidies that collectively makes up the nation's commitment to universal telephone service for all Americans. In fact, Congress expanded that commitment in some cases.

This effort to balance the twin objectives of competition and universal service was also reiterated in regulatory principles adopted as part of the landmark World Trade Organization (WTO) Agreement on Basic Telecommunication Services signed in 1997.

The Federal Communications Commission (FCC), with state regulatory commissions, has been responsible for implementing the 1996 Act, and through those measures, the universal service commitments made in the WTO. The FCC has made substantial progress in implementing the market-opening provisions of the law, but the implementation of the universal service provisions has lagged. To a great extent, almost four years after enactment of the 1996 law, the traditional system of cross subsidies remains the backbone of the nation's commitment to universal service. (The term cross subsidy refers to the fact that urban and rural rates are similar even though serving rural customers costs more, businesses pay more than residential customers, and long distance access fees are higher to subsidize local service.) The universal service system, as it exists today, can hardly be said to meet WTO principles of transparency, non-discrimination, and competitive neutrality. Nor can it be said to be consistent with supporting a competitive telecommunications market envisioned by writers of the law.

Moreover, getting prices right in a competitive environment is critical if the market is to send the right signals to stimulate investment. Because the current cross-subsidy rate structure distorts investment decisions for both telecommunications companies and consumers, the current universal service system threatens to slow investment in new facilities, especially the introduction of packet-switched and broadband networks. (Broadband refers to telecommunications networks that can transmit data at high speeds.)

As telecom competition and the Internet advance and converge, reform of the universal service system for plain old telephone service has become imperative. Reform will create a stronger, more secure foundation for growth of the communications and information driven New Economy. Prompt completion of universal service reform will also uphold U.S. leadership in telecom policy and ensure U.S. implementation of WTO commitments. Finally, reform will stimulate the modernization of the network and investment in broadband facilities.

The opposite is equally true: Failure to step up to the job of universal service reform will stymie the growth of the New Economy and threaten U.S. trade leadership in telecommunications.

Currently, the existing universal service system of extensive, implicit cross-subsidies from some kinds of services and customers to others is not sustainable in a competitive telecommunications marketplace. Moreover, the shift to broadband and digital telephone networks is also calling into question the efficacy of the existing arrangements. Finally, the current subsidy system, with many services priced above cost to support those priced below cost, distorts demand for new telecom services and leads to pressures to mistakenly apply the universal service framework to the Internet itself.[1]

We can open markets to competition without fear of losing the great social achievement made possible by universal service policies. As a result, it's time to reform universal service policy while maintaining our national commitment to widespread telephone usage. In particular:

- **The FCC should eliminate the implicit portion of access fees that local carriers charge interexchange carriers to support universal service, and make that support explicit, as the Telecommunications Act 1996 requires, by raising the fixed monthly subscriber line charges an offsetting amount.**

- **State Public Utility Commissions should take steps to reform universal service and allow prices of local rates to more closely reflect actual costs, including reducing access fees for intra-state long distance calling.**

- **While reducing subsidies in the telephone market, the FCC and states should resist pressures to expand those universal service subsidies to include the Internet or broadband communications.**

How Does Universal Service Work?

While there is some disagreement over the policy origins of universal service (some point to the Communications Act of 1934, while others credit FCC rules promulgated in the late 1960s), there is agreement that a major goal of telecommunications has been to provide telephone service to as many Americans as possible at a reasonable price. To do this, state and federal telecommunications regulators employ a tangle of implicit and explicit subsidies to keep rural and residential rates affordable.

The central mechanism is the subsidization of local residential phone rates by long distance, and in some cases, business rates. Inter-state long distance calls are assessed an access fee that is higher than the actual cost of interconnecting with local telephone companies, and these revenues go to local telephone companies to help them keep local services affordable.

In addition, business users pay more than residential users for monthly phone service. According to the FCC, the average cost of monthly phone service for urban residential users was $19.92 in 1997, while businesses with a single line payed $44.33.[2] In some places the subsidy is even more extreme. For example, in Minnesota in the 1980s, the rates for basic business service were required to be set at three times the rate for basic residential service, even if the two cost the same to provide, or if competition for business services was more intense. Moreover, enhanced services (e.g., second lines, call waiting, call messaging) are charged a higher rate in order to subsidize basic monthly phone service. For example, the federally imposed subscriber line charge for residential users is $3.50 per month, but $5.88 for each additional line. In some cases, the policy of cross-subsidization, which artificially raised the prices of the services, slowed the deployment of new services over telephone networks, such as ISDN (a moderate speed data service) and video.

The 1996 Telecommunications Act also created a new recipient for universal service funds—schools, libraries, and rural health centers—to subsidize not only their phone usage but costs related to hooking up to and using the Internet (termed the E-rate). This is part of a larger explicit universal service fee based on interstate revenues whose funding goes not only to the E-rate and to the Lifeline/Linkup program (a federal program that subsidizes the initial telephone connection charges and monthly service costs for targeted lower income consumers), but also to support service in high cost areas (primarily to small phone companies in rural areas).

These are the only part of federal universal service funding that is explicit in both its collection and distribution. In 1998, it totaled approximately $4.5 billion. These funds are collected through an explicit fee on inter-state long distance and wireless calls, and by fees charged by local telephone companies to long distance companies, and the funds go to the Universal Service Fund which supports the above mentioned programs.

Finally, because costs of providing phone service normally rise as population density falls, and because of the policy of geographic rate averaging (where rates stay the same regardless of location), the largest cross-subsidization occurs from urban users to rural users. For example, the actual costs of providing phone service in Washington state range from $15.90 per month in some densely populated areas to as high as $476 per month in more remote areas.[3] According to one study, rates in 20 states are lower than in densely populated Chicago, Los Angeles, and New York.[4] While this has helped keep rates affordable in rural areas, it has also led to perverse cross subsidies, where businesses owned by low-income individuals in urban areas subsidize middle- and upper-income residents in rural areas. One study of rural Colorado phone users found that half of the phone users getting subsidized service were middle income or above.[5] The Congressional Office of Technology Assessment estimated that it costs 10 times more for telephone service to households at the low density urban fringe than it does households in the central city, but both pay the same amount for phone service.[6] The FCC has estimated that the monthly cost for serving a Chicago residential customer is $12.72 per month compared to $786.42 per month for a rural user outside of Tucson, Arizona.[7] One result has been to subsidize urban sprawl by making edge development cheaper than it actually costs.

Telephone Costs and Coverage

In part because of universal service policies, but also because of increased incomes and reduced real phone costs, telephone service is exceedingly affordable and universal. Telephones reached market saturation by 1970, with over 90 percent of households having at least one, increasing to over 94 percent today. To the extent that there is a problem of non-subscription, that problem is concentrated among the lowest income segments of the population, and in part, non-subscription in these income groups appears to be related to high long distance usage, rather than high monthly fixed costs for local rates.[8]

Costs of having a phone continue to fall. About 2 percent of consumer expenditures are devoted to phone service, a percentage that is unchanged over the last 15 years, despite dramatic increases in long distance calling and additional services (second lines, call waiting, mobile phones). These cost reductions stem largely from the fact that labor productivity in the telephone industry has grown faster than virtually any other industry, increasing 60 percent between 1987 and 1997.[9] As a result, while the consumer price index for all goods increased annually at a rate of 3.4 percent from 1987 to 1997, the price of phone service increased only 1 percent, in essence falling by 2.4 percent in real dollars every year.[10] Average costs of monthly service for urban users has increased from $17.70 in 1986 to $19.92 in 1997, but with inflation growing 46 percent, this represents a decrease of 34 percent.

Universal Service Policy in the New Competitive Environment

In the regulated, technologically stable telephone environment that existed when the current universal service system was first developed, the distortions to the efficiency or innovativeness of the telecommunications market were manageable because the system was stable and regulation of monopoly prices was an easy way to transfer wealth between consumer groups. Prior to the 1996 Telecommunications Act, local service was still largely a regulated monopoly where implicit and explicit subsidies could occur with little competitive affect since local competition was nascent at best. Moreover, the technology itself was relatively stable, essentially consisting of the circuit switched phone network over wires (i.e., a network where an entire circuit is established between two callers, who communicate on a single dedicated wire between them).[11]

In the 1990s, this all began to change. The 1996 Telecommunications Act opened up the local telecommunications market to competitive forces. Moreover, the Internet and the development of broadband packet-switched networks (where communications are divided into "data packets" and sent separately over lines shared with other traffic) and broadband networks make the shift to a fixed-price system more likely.

In a competitive environment, one of the keys to making competition work is aligning prices with costs. If prices are above costs for some items and below for other items, the market will respond by competitors focusing on the former part of the marketplace and not on the latter (with consumers consuming fewer of the items where prices are above costs, and more of the opposite). If prices are aligned with costs, the market disciplines itself, rather than relying on regulatory intervention with respect to prices.

And this is exactly what we have seen. The most robust competition in local phone service has emerged in business markets in metropolitan areas where prices historically—and as a result of government regulatory prescriptions—often exceeded costs. Competition has been slower to develop in the subsidized side of the marketplace—residential and rural—where current revenues do not always justify investments.[12] Most of the new competitive local exchange companies (CLECs) have to date focused largely on serving low-cost customers for whom incumbents charge regulatorily-increased rates, because this keeps their costs lower. The CLECs are able to grow without building out their networks to higher-cost residential and rural users and indeed the current pricing system gives them significantly less incentive to do so. In contrast, the incumbent local exchange carriers, or ILECS (usually the Regional Bell Operating Companies), provide service to the high cost users, but because prices are kept artificially low, both they and CLECs have less incentive to expand and upgrade these networks than they would if prices more accurately reflected costs. In fact, the FCC has recognized that "implicit [universal service] support can also delay or deny the benefits of competition to residential or high-cost customers if a competitor finds that it is unable to compete against the incumbent's artificially low rates." In addition, Congress has directed the FCC to make all subsidies explicit.[13] This is not to say that reducing these subsidies would lead to a rural renaissance of telecom investment, but they are one factor limiting investment.

In essence, the FCC and state regulators are attempting to force competition while continuing to subsidize prices. It is impossible, however, to do both. Either we move more in the direction of increased competition where prices better approximate costs, or we move back toward a more regulated market where price distortions and subsidies can exist without competitive distortions (although technological change has for all intent and purpose foreclosed this option of going back).

The rhetoric of the 1996 Act led many people to believe that rates would fall for all consumers. In reality, while competition drives down overall costs and hence prices, it also drives all prices closer to costs. In this case, this means that in a competitive environment, prices of some services for some subscribers are likely to rise and others fall, at least in the short term. Although given that a host of services will get cheaper with universal service reform (e.g., long distance, second lines, and call waiting [which half of consumers buy]), there will be many more winners than losers as a result of reform. One study showed that consumers would gain $1.2 billion annually from reducing access fees and increasing monthly rates a corresponding amount, and that consumers across the income spectrum would benefit.[14] In fact, the FCC has recognized that "this system is not sustainable in its current form in a competitive environment."[15] The farther prices and costs diverge for specific services in the telecommunications marketplace, the more distorted the patterns of consumption will be, and more importantly, the slower technological innovation will occur.

It is important to note that the nation has a successful history of restructuring rates to track costs in a market-oriented fashion. When AT&T was split up in the early 1980s and the Regional Bell Operating Companies were formed, access fee charges on long distance were as high was 17 cents per minute. Keeping that high rate would have led to widespread distortions and inefficiency, and the skewing of investments to private long distance networks.

Access fees were reduced to slightly over 2 cents per minute—much lower—but still above the true cost. In place of the higher access fee, a Subscriber Line Charge (SLC) was assessed to monthly local phone service and Lifeline and Linkup programs were created. While the naysayers argued that this would hurt universal service, in fact, the opposite occurred as penetration rates went up slightly. And long distance usage by Americans has more than tripled since 1984.[16]

Fostering Broadband and Internet Deployment

Getting prices right in a competitive environment is critical if the market is to send the right signals to stimulate investment. Because the current cross-subsidy rate structure distorts investment decisions for both telecommunications companies and consumers, the current universal service system threatens to slow investment in technological advances, especially the introduction of a packet-switched and broadband networks. In addition, by pricing some services and areas below cost without any explicit universal support for actually serving the area, incentives to build out the network or upgrade it to broadband, packet-switched networks are reduced.

To encourage competition, particularly in areas now without it, subsidies not only need to be reduced, they must also be explicit, completely portable, and based on the customer. Currently, much of the subsidy system is implicit and flows to the incumbent phone providers, who in turn are expected to use the funds to keep rates low for residential users and users in high cost areas.

A second threat to broadband deployment is if regulators, particularly state regulators, increase the price of broadband services in order to "contribute" to the cost of local service for traditional "narrowband" only subscribers. Some groups such as the National Association of State Utility Consumer Advocates and the Consumer Federation of America argue that all services that "use the loop" should contribute to the cost of this common facility. But requiring broadband service to pay into the universal service fund would slow the deployment of this key technology that has the potential to provide huge benefits to the U.S. economy. Policy should do everything possible to spur broadband deployment.

Finally, the current access fee component of universal service and the Internet are on a collision course that will change either one or both unless changes are made to the universal service system. One of the reasons for the growth in Internet telephony (phone calls made in part or completely over the Internet) is that Internet users do not pay the access fees for universal service that circuit switched long distance pays. (Some long distance companies are in fact sending some long distance calls along a packet-switched network and thereby not paying access fees.) As long as the Internet was considered solely a computer service and not as a communication service, this distinction made sense. But since the Internet is a network that transmits bits of data that are reassembled at the other end (as text, pictures, voice, etc.), it becomes increasingly difficult to make these old distinctions between computer services and telecommunications.

As such, the issue of Internet telephony is not an special case, but rather goes to the

heart of the problem. In a packet-switched environment, most of the costs of the system are fixed costs (installing the lines, routers, etc.), with few of the costs related to usage. As the entire telecommunications network moves toward packet-switching, it will be easier for users to avoid paying universal service charges embedded in interstate (long distance) telephone access charges. However, extending the current inflated access charge regime to Internet services would significantly slow the growth and usage of the Net by raising its cost. Moreover, Internet users already pay an "access fee" through fixed monthly fees to Internet Service Providers. Moreover, if universal service fees were collected from local telephone charges, as opposed to long distance, Internet users would already pay universal service fees through their local telephone service.

Finally, the universal service support system will be increasingly at odds with the fundamental economics of the industry. If the current system is maintained, either revenues raised by access fees will decline,[17] reducing the flow of funds that ostensibly support service and investment in rural areas,[18] or the pressures to migrate the current model of universal service onto the Internet itself will grow, to the significant detriment of the growth and vitality of the Internet. To maintain both the unregulated nature of the Internet and universal service requires changing existing universal service and Interstate access charge mechanisms.

Principles for a Universal Service System for the Digital Economy

Unlike some who argue that the government should do little or nothing to support the goal of universal service for telephones, the Progressive Policy Institute (PPI) believes that there is a legitimate government role. Not only is there value for people in all parts of the country to be able to communicate, but, lack of access to communications can hamper the transition from welfare to work, perpetuating dependency, homelessness and poverty. However, universal service needs to be modernized for the new digital economy. In short, we need to maintain the goal of universal service but change the means by which we get there in a way that fosters competition and facilitates innovation. To do that, any new policies or regulations should follow the following principles, as laid out by PPI's New Economy Task Force:[19]

Spur Innovation to Raise Living Standards. Everyone is better off if the universal service system promotes technological innovation and competition, rather than standing as an impediment to it.

Open Regulated Markets to Competition. Economists have long acknowledged that competition keeps prices down. The New Economy creates another critical reason for competition: competition drives innovation, and ultimately provides the greatest benefits to consumers and citizens. Full competition in telephone markets will not emerge unless prices are close to costs.

Let Markets Set Prices. Currently the government regulates telephone prices to achieve the goal of universal service. In the new, more competitive telecom market, distorted prices are

much more likely lead to economically inefficient decisions by both producers and consumers. In the case of universal service, this means moving prices closer to costs, although for very high cost users or low income users, it means maintaining some level of support.
Let Competing Technologies Compete. Support for universal service should not be biased in favor of any type of company or technology. Given today's rapidly changing technological capabilities, locking in any particular technology through regulation would run risks of picking the wrong technology and wasting resources. In the case of universal service, its possible that wireless networks may be able to deliver quality services in rural areas at lower costs, but only if the subsidy system is completely portable.

Expand the Winners' Circle. Ensuring that the benefits of innovation and change are spread broadly will require that all Americans, including those not yet engaged in or benefitting from the New Economy, have access to the tools and resources they need to get ahead and stay ahead. This means that all Americans should have affordable access to the telephone network.

Grow the Net. The Internet is a critical component of the emerging digital economy. Government should avoid policies or regulations that inhibit the growth of the Internet. In the case of universal service, this means not applying the current system of universal service to the Internet or broadband data communications.

Policy Recommendations

There are several things policy makers can do to reform universal service.

1) *The FCC should act to reduce long distance access fees while at the same time allowing fixed monthly subscriber line charges to increase an offsetting amount.* The Coalition for Affordable Local and Long Distance Service (CALLS), a coalition of local and long distance telephone companies, has made a balanced and fair proposal to reform universal service along these lines. The plan calls for per-minute interstate access charges that are now collected and dispersed to local carriers to be cut approximately in half. In exchange, subscriber line charges (SLC) on local bills will increase by an equivalent amount, making the proposal essentially revenue neutral. The SLC will increase from approximately $5.00 in 1999 (the SLC and the Presubscribed Interexchange Carrier Charges [PICC charge] together) to no more than $7.00 (the PICC charge is eliminated) by 2003. In addition, there will be some geographic rate rebalancing with rural high cost users paying a slightly higher SLC than urban high cost users, but not more than $7.00 per month. The proposal is estimated to raise $650 million in universal service funds which will be portable—tied to the subscriber and not to the company. Finally, the CALLS plan proposes to increase support targeted to low income users (e.g. Lifeline) by increasing the amount of the subscriber line charge that is waived for low income users. While a very few consumers might see their overall bills go up, most consumers would see no change, or pay slightly less.[20] This is an approach that merits consideration by policy makers.

2) *States should take steps to reform universal service and rebalance local retail rates.* Only part of the distortion in telephone prices is due to federal regulation; a large share is due to

state Public Utility Commission rules that also require complex cross-subsidization from some users to others. However, some states, such as Maine and Illinois, and countries such as Canada have engaged in significant rate rebalancing to bring costs closer to prices, including reducing the costs of inter-state long distance service while raising some rates for local service, and they have done so without experiencing significant decreases in subscribership.

3) ***The FCC and states should resist pressures to extend the definition of universal service to include the Internet or broadband communications.*** Universal service subsidies for the Internet beyond schools, libraries, and community centers make no sense in an environment where so many people who could afford Internet access are still choosing not to acquire it. Similarly, broadband telecommunications services should also be driven by real customer demand. Congress and the FCC need to support an environment that allows market forces to determine how telecommunications companies deploy new and advanced offerings. In fact, the universal service standards in the Telecommunications Act include consideration by the FCC of market demand for services as a measure of whether or not specific services should be included in universal service support. Most importantly, government policy makers should not impose existing standards of universal telephone service on these new and rapidly changing services. Such standards could distort investment and use patterns for technologies that are not yet used by a broad majority of Americans. It is important to note that reforming universal service for voice-grade service will help promote the development of competing broadband-capable networks without expanding the definition of universal service.

Conclusion

The telecommunications market has changed dramatically in the last decade as competition has increased and new technologies have emerged. Policy makers face a fundamental choice: They can seek to modernize the current telephone universal service system to make it more consistent with this new environment, and in so doing spur both competition and technological innovation; or they can try to preserve the existing system, slowing competition and innovation. As discussed above, there are ways to reform the universal service system that remain true to the spirit and intent of its architects—to provide affordable telecommunications services for those who need them—and the time has come to do so.

Robert D. Atkinson is director of the Technology, Innovation, and the New Economy Project at the Progressive Policy Institute.

For further information about PPI publications, please call the publications department at 800-546-0027, write the Progressive Policy Institute, 600 Pennsylvania Ave., Suite 400, Washington, DC, 20003, or visit PPI's web site at: http://www.dlcppi.org.

Endnotes

1. David Moschella and Robert D. Atkinson, *The Internet and Society: Universal Access, Not Universal Service*, Progressive Policy Institute, September 1998, (http://www.dlcppi.org/adobe/tech/society.pdf).

2. Federal Communications Commission, *Statistics of Communications Common Carriers, 1997*, Table 8.5.

3. Christopher Conte, "The Telecom Disconnect," *Governing Magazine*, July 1999, p. 24.

4. Robert W. Crandall and Leonard Waverman, *Talk is Cheap: The Promises of Regulatory Reform in the United States*, (Washington, DC: Brookings Institution, 1996).

5. P.B. Schechter, Colorado Office of Consumer Counsel, *Using Cost Proxy Models to Analyze Universal Service Funding Options*, paper presented at the 26th Annual Telecommunications Policy Research Conference, Alexandria, VA, Oct 3, 1998.

6. United States Congress, Office of Technology Assessment, *The Technological Reshaping of Metropolitan America* (Washington, DC: U.S. Government Printing Office, 1995) p. 209.

7. Federal Communications Commission, www.fcc.gov/ccb/apd/hcpm/.

8. Milton Mueller and Jorge R. Schement, "Universal Service from the Bottom Up: A Profile of Telecommunications Access in Camden, New Jersey," 12 *The Information Society*, 3 (1996).

9. Bureau of Labor Statistics, ftp/ftp.bls.gov/pub/special.requests/opt/dipts/oach3din.tx.

10. Federal Communication Commission, *Statistics of Communications Common Carriers, 1997*, Table 8.7.

11. The technology did evolve in the monopoly environment. For example, digital switches replaced electromechanical and fiber optics were introduced for transmission. But it certainly was not a fundamental reconfiguration in the way traffic is handled, as is circuit to packet.

12. Competition is slowly emerging in residential markets. According to the FCC, as of December 1998, competitive local phone companies (CLECs) served 1.2 million residential lines through resale.

13. Federal-State Joint Board on Universal Service, CC Docket 96-45, *Seventh Report and Order*, at para. 7.

14. Stephen B. Pociask, *An Assessment of Consumer Welfare Effects of the CALLS Plan*, Joel Popkin and Company, October 25, 1999. p. 11.

15. Federal-State Joint Board on Universal Service, *Report and Order*, 12 FCC, Rcd 8776, 8781, (1997) at para. 11.

16. Federal Communications Commission, *First 1999 Trends in Telephone Service Report*, http://www.fcc.gov/Bureaus/Common_Carrier/Reports/FCC-State_Link/IAD/trend199.pdf.

17. Rob Friedan, Professor of Telecommunications, Penn State University, *Without Public Peer, The Potential Regulatory and universal Service Consequences of Internet Balkanization*, paper presented at the 26th Annual Telecommunications Policy Research Conference, Alexandria, VA, Oct 3, 1998.

18. Some even argue that it will lead to a consolidation of ISPs with potentially reduced service for rural users. (Ibid.)

19. The New Economy Task Force, *Rules of the Road: Governing Principles for the New Economy,* Washington, DC: Progressive Policy Institute, 1999.

20. Stephen B. Pociask, *An Assessment of Consumer Welfare Effects of the CALLS Plan,* op. cit.

PROGRESSIVE POLICY INSTITUTE

January 13, 2000

Dear Colleague:

The time for reform of telephone universal service policies has come.

Providing telephone service at a reasonable price to as many Americans as possible has been at the heart of America's telecommunications policy for at least 50 years. And universal service policies have been successful: Today, more than 94 percent of American households have at least one telephone.

As technology moves forward, and we enter into a new competitive telecommunications marketplace, however, new policies are needed to ensure that mechanisms to provide universal service do not stand in the way of innovation and competition. In a new policy briefing, the Progressive Policy Institute (PPI) offers a plan that does just that, without sacrificing America's historic commitment to the goal of universal service.

In *Social Policy in a Competitive Marketplace: The Need for Telephone Universal Service Reform,* author Robert Atkinson proposes three reforms to the existing system of universal service:

- The Federal Communications Commission (FCC) should reduce long distance access fees while at the same time allowing fixed monthly subscriber line charges to increase an offsetting amount;
- The states should take steps to reform universal service and rebalance local retail rates; and
- The FCC and state governments should resist pressures to extend the definition of universal service to include the Internet and broadband communications.

These reforms would continue to support innovation, by fostering the deployment of new Broadband and packet-switched (Internet telephony) telecommunications networks. In addition, they would not abandon our nation's commitment to universal service, in fact, in some cases, this commitment would be expanded.

For more information about this report or other technology issues at PPI, please call (202) 547-0001 or visit our web site at http://www.dlcppi.org/tech.htm.

Sincerely,

Will Marshall

Will Marshall
President

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